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**DEADLOCK IN EEC-UNITED STATES NEGOTIATIONS
ON PASTA PRODUCTS**

Statement by Mr Willy de Clercq

"Negotiations on pasta products between the Community and the United States have reached a complete deadlock because of the intransigence of the US position", Mr Willy De Clercq, Member of the Commission responsible for trade policy, has stated.

"For more than 7 months" he added, "we, on the Community side, have striven in good faith to find a solution to the US problem regarding the Community refund on pasta products. We have been under no obligation to do so since the GATT panel's report on pasta products was never adopted and the United States therefore has no legal right to ask us. But, we were ready to make a gesture in a spirit of cooperation to avoid the emergence of a further conflict".

"However, we indicated from the outset that we were not willing to abolish our refunds and did not want to prejudice the Community's position on this matter in the Uruguay Round. But, I believe that an agreement was still possible".

"In the course of the negotiations, we tried every possible formula which might prevent a conflict. But, we still find unacceptable the reduction in our pasta refunds on which the United States continue to insist".

"The whole point of negotiation is for each side to understand the other side's position and to take a step in its direction".

"Consequently, we must at the present time consider that the negotiation has failed. It is therefore likely that the United States will take unilateral measures in the coming week. The Community will then have to retaliate. The Commission will, to this end, present proposals to the Council as soon as possible".

"If this does happen, our reaction to such an outcome can only be one of regret. Even if the conflict dividing us is of limited economic importance, we must not underestimate the damage which this type of quarrel does to relations between us".

BACKGROUND

The origin of the pasta dispute

The United States have for some time contested the legality of the export refunds paid by the Community for pasta products(*), since it considers pasta to be a processed product and not an agricultural product, making the refunds contrary to GATT rules. As far as the Community is concerned, the refunds are granted on the raw product, durum wheat, not the processed product.

In 1982, a GATT panel was set up, at the request of the United States, to examine the legality of the refunds.

The panel was divided, though the majority of its members concluded that the Community was in the wrong. However, the GATT Committee on Subsidies, the body responsible for taking a decision on the panel's report, did not adopt it. There is therefore no legal basis to the request for abolition of the refunds.

However, the dispute resurfaced in June 1985 when the US Government, in violation of GATT rules, imposed punitive customs duties on imports of pasta from the Community in retaliation for what it saw as a failure to reach a satisfactory solution to another conflict, this time concerning citrus fruit. Duties on pasta products increased from less than 1 % to 25 % for pasta products containing eggs and 40 % for pasta products not containing eggs. The Community riposted by increasing duties on imports from the United States of lemons (from 8 to 20 %) and unshelled walnuts (from 8 to 30 %).

After a four-month truce during which the two sides failed to reach agreement, the respective measures entered into force on 1 November 1985.

On 10 August 1986, the United States and the Community did however settle their dispute concerning citrus fruit and agreed "to proceed in good faith in seeking a prompt solution to their dispute over pasta refunds" either by 1 July 1987 or by the time the citrus fruit agreement was approved by the US Congress, whichever was the latest.

Negotiations began in December 1986.

(*) These refunds are intended to correct the difference between the price of Community cereals used in the manufacture of pasta products and the world market price of the product